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INTRODUCTION

The Office of Internal Audit performed an audit of Muskegon County FIA for the period October 1, 1998 through July 23, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of Michigan Family Independence Agency (FIA) are being followed. Muskegon County FIA had 202 full time equated positions (FTE's) at the time of our review. Muskegon County FIA provided assistance to an average 14,771 recipients per month during FY 1999, with total assistance payments of \$21,500,334 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Muskegon County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS Input
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Medical Transportation	ENP/SER Program
Phone Usage	Modified Accrual Balance Sheet
Food Stamps	Payroll Review
Procurement Card	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Muskegon County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safe guarded and transactions are executed in accordance with management's authorization. We did, however, fine a few instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Muskegon County FIA has reviewed all findings and recommendations included in this report. They indicated that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that Muskegon County FIA was not operating in accordance with FIA Policies and procedures that are described in manuals or instructional letters.

MA-010 Reconciliation

1. Muskegon County FIA did not reconcile all flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that Muskegon County FIA reconcile the flagged transactions on the MA-010 to input documents

Modified Accrual Basis Balance Sheet

2. Muskegon County FIA did not prepare a Modified Accrual Basis Balance Sheet each month, as required by Accounting Manual item 402.3. Preparation of the Modified Accrual Balance Sheet is necessary to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Muskegon County FIA prepare the Modified Accrual Basis Balance Sheet each month.

Bank Reconciliation

3. Muskegon County FIA had a \$122.25 discrepancy on their bank reconciliation for the month of April 1999. We were informed that this discrepancy had existed for some time.

Accounting Manual Item 405 requires that the bank account be totally reconciled to ensure that the local office records are complete and accurate.

WE RECOMMEND that the Muskegon County FIA determine the cause for the \$122.25 discrepancy, and make appropriate adjustments.

Controlled Document Log

4. Muskegon County FIA did not properly control blank documents, as required by Accounting Manual Item 403. The County's Controlled document Logs (FIA-4070) did not agree with the physical count of documents. Accurate recording of receipt and use of controlled documents on the FIA-4070 and a monthly reconciliation of the FIA-4070 to the physical count of the documents helps to ensure that loss or theft of the documents would be discovered in a timely manner.

WE RECOMMEND that the Muskegon County FIA perform a physical count of all controlled documents on a monthly basis and reconcile the count to the FIA-4070.

Obsolete Controlled Documents

5. Muskegon County FIA had obsolete Food Stamp Participation Cards (FIA-672) on hand in the safe, which they were not controlling. Accounting Manual Item 403 requires that these documents be controlled, and gives instructions for their destruction when obsolete. Keeping obsolete Food Stamp Participation Cards on hand and not controlling them increases the risk of these cards being used inappropriately.

WE RECOMMEND that the Muskegon County FIA destroy the obsolete FIA-672's in accordance with the instructions in Accounting Manual Item 403.

Separation of Duties - Disbursements

6. Muskegon County FIA was not properly separating duties in the check disbursement process. One clerk operated the check signing machine, performed the monthly reconciliation of the sign-o-meter log, had access to blank checks, and was involved in

check disbursement process. Accounting Manual Item 410 states that, for internal control purposes, the various payment processing and check writing functions must be separated.

WE RECOMMEND Muskegon County FIA have an employee who does not have access to blank checks, and who is independent of the check preparation process, perform the reconciliation process, and operate the check signing machine.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROL

The following are areas where we have identified a control weakness at the Muskegon County FIA, and we are recommending a change in procedure to reduce the risk associated with the control risk.

Control of Bus Passes

7. Muskegon County FIA did not properly control bus passes. We noted that the County did not prepare the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) for bus passes. Preparation of the Monthly Controlled Document Inventory and Reconciliation helps to ensure that loss, theft, or misuse of bus passes would be detected on a timely basis.

WE RECOMMEND that the Muskegon County FIA perform a physical count of all controlled documents on a monthly basis and reconcile the count to the FIA-4070.

Backup Designated Staff Person

8. Muskegon County FIA did not have a backup Designated Staff Person (DSP) with password to access IRS system. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Muskegon County FIA appoint a backup DSP for IRS information and obtain password.

Safe

9. We found that the safe in Muskegon County FIA fiscal area is not kept locked during the day. Locking the safe during the day helps to prevent loss or theft of all items kept in the safe.

WE RECOMMEND Muskegon County FIA kept the safe in the fiscal area locked during the day.

Fiscal Office Area

10. We found that the Muskegon County FIA fiscal office was not restricted to fiscal employees only. The Primary Internal Control Criteria for Local/District Office Operations states that the local office accounting unit should be within a floor to ceiling area with locked doors that provide a controlled physical barrier to access.

WE RECOMMEND that Muskegon County FIA restrict access to the fiscal office.